



THE
STRIKE
CLUB

The Shipowners' Mutual Strike Association (Bermuda) Limited

Consolidated Financial Statements (IFRS)

For the year ended
31 January 2017

Report on the Audit of the Consolidated Financial Statements

The Members
The Shipowners' Mutual Strike Association (Bermuda) Limited
and Subsidiary

Opinion

We have audited the consolidated financial statements of The Shipowners' Mutual Strike Association (Bermuda) Limited and its dormant subsidiary, Strike Club Europe Limited (the "Group"), which comprise the consolidated statement of financial position as at January 31, 2017, and the consolidated statement of comprehensive loss, statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at January 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ltd.

April 27, 2017

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 January 2017

	Note	2017 USD 000's	2016 USD 000's
Assets			
Financial assets	4	12,235	13,631
Loans to associated companies	5	2,000	2,000
Balances receivable from associated companies	11	1,436	2,396
Debtors and other receivables	6	1,688	3,511
Recoverable from reinsurers and others	7	5,269	7,322
Reinsurers share of unearned premiums	7	943	1,739
Deferred discounts		125	350
Cash and cash equivalents	8	2,067	4,318
		<u>25,763</u>	<u>35,267</u>
Fund and liabilities			
Statutory reserves		1,000	1,000
Contingency reserves	9,11	11,323	19,884
Unearned premium reserve		1,007	2,427
Balances payable to associated companies	11	6,318	-
Creditors and other payables	10	6,115	11,956
		<u>25,763</u>	<u>35,267</u>

A Le Guillard
 President and Chairman

HG Williams
 Vice President and Vice-Chairman

W. Wood
 General Manager, Charles Taylor & Co. (Bermuda), Managers

27 April 2017

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 January 2017

Statutory reserves

Statutory reserves at the beginning of the year
 Increase in statutory reserves
Statutory reserves at the end of the year

Note	2017 USD 000's	2016 USD 000's
	1,000	1,000
	-	-
	1,000	1,000

Contingency reserves

Contingency reserves at the beginning of the year
 Decrease from ordinary activities
 Total comprehensive loss
Contingency reserves at the end of the year

Note	2017 USD 000's	2016 USD 000's
11	19,884	26,370
	(8,561)	(6,486)
	(8,561)	(6,486)
9	11,323	19,884

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the year ended 31 January 2017

	Note	2017 USD 000's	2016 USD 000's
Insurance result			
Delay premiums		5,822	14,705
Loss of hire, war and other premiums		7,251	12,560
Gross earned premiums	11	13,073	27,265
Delay reinsurance premiums		(1,232)	(3,024)
Loss of hire and war reinsurance premiums		(3,188)	(5,350)
Outward reinsurance premiums		(4,420)	(8,374)
Net earned premiums		8,653	18,891
Claims incurred net of reinsurance	12	(11,893)	(17,324)
Insurance result		(3,240)	1,567
Operating expenses			
Operating expenses	13	(5,844)	(7,811)
Net insurance result after operating expenses		(9,084)	(6,244)
Financial income			
Net investment income/(loss)	15	557	(190)
Loss on exchange		(34)	(52)
Net financial income/(loss)		523	(242)
Decrease from ordinary activities		(8,561)	(6,486)
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive loss		(8,561)	(6,486)

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 January 2017

Cash flows from operating activities	2017 USD 000's	2016 USD 000's
<i>Cash inflows:</i>		
Gross earned premiums received	5,797	12,144
Reinsurance recoveries	1,446	167
Current account associated companies	4,900	2,667
	<u>12,143</u>	<u>14,978</u>
<i>Cash outflows:</i>		
Reinsurance premiums	(2,576)	(4,705)
Gross claims paid	(5,655)	(8,272)
Other cash payments	(8,089)	(10,839)
	<u>(16,320)</u>	<u>(23,816)</u>
Net cash outflow from operating activities	(4,177)	(8,838)
 Cash flows from investing activities		
<i>Cash inflows:</i>		
Interest received	80	111
Sale of investments	5,812	7,914
	<u>5,892</u>	<u>8,025</u>
<i>Cash outflows:</i>		
Subordinated loan to associated company	-	-
Purchase of investments	(3,938)	(4,890)
	<u>(3,938)</u>	<u>(4,890)</u>
Net cash inflow from investing activities	1,954	3,135
Net cash outflow	(2,223)	(5,703)
Opening cash and cash equivalents	4,318	10,124
Effect of exchange rate movement	(28)	(103)
Closing cash and cash equivalents	2,067	4,318

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

1. Structure

"The Strike Club", or "the Group", consists of The Shipowners' Mutual Strike Insurance Association (Bermuda) Limited ("Strike Insurance Bermuda"), The Shipowners' Mutual Strike Insurance Association Europe ("Strike Insurance Europe") and The Shipowners' Mutual Strike Association (Bermuda) Limited ("Strike Association Bermuda"), together with Strike Association Bermuda's wholly owned dormant subsidiary, Strike Club Europe Limited ("Strike Club Europe"). Strike Club Europe was incorporated in the UK on 9 November 2015 and submitted an application to the PRA to conduct insurance business. It withdrew this application following the UK's Brexit vote and it has not started trading, so it remains dormant. Until 31 January 2017, Strike Insurance Europe, incorporated in Luxembourg with its registered office at 74 Rue de Merl, Luxembourg, insured members who need or prefer an EU insurer. From 1 February 2017, all new business to The Strike Club is underwritten by Strike Insurance Europe.

With effect from 1 February 2017, Strike Insurance Bermuda has ceased to write insurance business. It will continue for the purpose of meeting its obligations to members entered in it for the 2016/17 and earlier policy years, with Strike Association Bermuda continuing to support Strike Insurance Bermuda as quota share reinsurer.

All members of Strike Insurance Europe and Strike Insurance Bermuda are members of Strike Association Bermuda which conducts reinsurance operations and writes war risks and loss of hire on a fixed premium basis. Strike Insurance Europe and Strike Insurance Bermuda are non-voting members of Strike Association Bermuda. Strike Insurance Bermuda and Strike Association Bermuda have their registered offices at Swan Building, 2nd Floor, 26 Victoria Street, Hamilton, Bermuda.

The members of Strike Insurance Europe and Strike Insurance Bermuda collectively exert voting control of Strike Association Bermuda. They can therefore be regarded as related parties for the purposes of IAS 24. No single transaction is of such materiality to require separate disclosure.

There is a tripartite agreement between the parties which provides that Strike Insurance Bermuda and Strike Insurance Europe pursue an identical policy for the levying and rating of calls and that claims be dealt with in a consistent and uniform manner. Quota share reinsurance agreements have been entered into whereby the direct insurers each reinsure the majority of their insurance liability with Strike Association Bermuda.

The consolidated financial statements for the year ended 31 January 2017 include the financial statements of Strike Association Bermuda consolidated with its wholly owned dormant subsidiary, Strike Club Europe, incorporated in the UK. SCIHCE, incorporated in Liechtenstein, was consolidated until 10 December 2015 when it was put into liquidation. Combined financial statements for The Strike Club economic grouping are produced separately in order to show the financial position of The Strike Club.

On 1 March 2015, Charles Taylor plc took over the management of The Strike Club under the terms of a new management contract with an initial term that will now expire on 31 January 2020. Charles Taylor plc's subsidiary, Charles Taylor & Co. (Bermuda) has taken over the management of Strike Association Bermuda and Strike Insurance Bermuda. Charles Taylor plc has acquired S.C. Management (Luxembourg) SA as a 100% owned subsidiary which continues to manage Strike Insurance Europe.

2. Accounting policies

(a) Basis and currency of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for those financial assets that have been measured at fair value, and the accounting policies are consistent with those of the previous financial year.

Current IFRS and IFRIC interpretations applicable during the year that had a material effect on the financial statements are:

- IFRS 13 Fair Value Hierarchy amended by Annual Improvements 2011-2013 Cycle
- IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

Current IFRS and IFRIC interpretations applicable during the year that had no material effect on the financial statements are:

- IFRS 1 Government Loans - Amendments to IFRS 1
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 19 Employee Benefits (Revised)
- IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36
- IFRIC 21 Levies

Standards, amendments and interpretations issued but not yet effective at the date of issuance of the financial statements are:

- IAS 7 Statement of Cash Flows Amended by Disclosure Initiative (Amendments to IAS 7)

The Group reporting and operating currency is the US dollar, which is the trading currency of the majority of the members. All values are rounded to the nearest thousand US dollars except when otherwise indicated.

(b) Consolidation

The consolidated financial statements include the accounts of Strike Association Bermuda and its wholly owned dormant subsidiary, Strike Club Europe. The scope of consolidation does not cover the independent management companies. The financial statements of all of The Strike Club companies are prepared for the same reporting year using consistent policies.

(c) Foreign currencies

Assets and liabilities in foreign currencies have been translated to US dollars at rates of exchange ruling at the year end. Transactions in foreign currencies are recorded in US dollars at the exchange rate ruling at the date of the transaction. Net exchange differences on financial assets, cash and cash equivalents are reported in the consolidated statement of comprehensive income.

(d) Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(e) Estimated outstanding claims

Claims are assessed on a case by case basis and provision is made for the expected liability based on the claim by the member or insured. The claims provision is further complemented with a provision for IBNR where appropriate. These assessments are made taking into account the risk of further claims and potential claims deterioration.

(f) Financial assets

The managers determine the classification of investments at initial recognition and re-evaluate this at each reporting date. Investments are initially recognised at fair value based on current bid prices. Purchases and sales of investments are recognised on the trade date, the date on which one commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred with substantially all risks and rewards of ownership.

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

Most investments are classified as financial assets at fair value through income. Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income are included in the income statement in the period in which they arise.

(g) Reinsurance

The Group cedes insurance risk for all of their businesses. Amounts recoverable from reinsurers represent balances due from reinsurance companies. They are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurance contracts. Reinsurance assets are reviewed for impairment quarterly or when an indication of impairment arises. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Any impairment loss is recorded in the combined statement of comprehensive income.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less, held with recognised financial institutions.

(i) Calls and premiums

Quota share reinsurance premiums relate to advance, interim, closing and release calls, net of bad debts. Loss of Hire, war and other premiums comprise the total premiums due in respect of contracts entered into during the accounting year regardless of the period of cover. Returns are debited in the accounting period to which they relate. Provision is made for unearned premiums, with movements on the reserve for unearned premiums reflected in the combined statement of comprehensive income. Unearned premiums are calculated pro rata by reference to individual policy dates.

(j) Claims

Claims and related expenses, including internal claims handling costs, are included in the consolidated statement of comprehensive income on an accruals basis, including the expected total cost of claims incurred but not approved and claims incurred but not reported (IBNR). Changes in estimated outstanding claims are included in the consolidated statement of comprehensive income in the period in which they arise.

(k) Operating expenses

Operating expenses include acquisition costs, management fees and administration expenses. Management fees are allocated to claims, acquisition, financial and general management functions on the basis of salaries.

(l) Cash flow statement

In determining cash flows, the direct method is used whereby major classes of gross cash receipts and gross cash payments are disclosed.

3. Exchange rates

The following rates of exchange were applicable at the balance sheet dates:

	2017	2016
	USD 1 equals	USD 1 equals
Australian dollar	1.3231	1.4137
Canadian dollar	1.3093	1.4073
Danish krone	6.9572	6.8968
Euro	0.9354	0.9242
Japanese yen	113.8350	121.0650
New Zealand dollar	1.3733	1.5456
Norwegian krone	8.3147	8.7277
Pound sterling	0.7991	0.7050
Swedish krona	8.8315	8.5750
Swiss franc	0.9971	1.0247

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

4. Financial assets

Carrying values and fair value hierarchy

		2017 Carrying value USD 000's	2017 Fair value USD 000's	2016 Carrying value USD 000's	2016 Fair value USD 000's
At fair value through income	debt securities	7,153	7,153	8,870	8,870
	mutual funds - debt	2,294	2,294	917	917
	equities	2,788	2,788	2,499	2,499
	mutual funds - equity	-	-	1,345	1,345
		<u>12,235</u>	<u>12,235</u>	<u>13,631</u>	<u>13,631</u>
Financial assets		<u>12,235</u>	<u>12,235</u>	<u>13,631</u>	<u>13,631</u>

Fair values and fair value hierarchy

At 31 January 2017, the Group uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

Level 1: quoted unadjusted prices in active markets

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All of Strike Insurance Bermuda's financial instruments are assessed as Level 1 during the reporting period ending 31 January 2017 (2016: all Level 1) and there were no transfers between levels.

Carrying values

	Fair value through income USD 000's	Total USD 000's
At 31 January 2015	16,954	16,954
Purchases	4,865	4,865
Disposals	(7,902)	(7,902)
Fair value gains recorded in income	(286)	(286)
At 31 January 2016	<u>13,631</u>	<u>13,631</u>
Purchases	3,924	3,924
Disposals	(5,757)	(5,757)
Fair value gains recorded in income	437	437
At 31 January 2017	<u>12,235</u>	<u>12,235</u>

Debt securities

	Fair value through income USD 000's	Total USD 000's
Maturity at 31 January 2017		
Within one year	1,951	1,951
One year to five years	5,202	5,202
Debt securities at carrying value	<u>7,153</u>	<u>7,153</u>
Maturity at 31 January 2016		
Within one year	1,053	1,053
One year to five years	7,180	7,180
Five years to ten years	637	637
Debt securities at carrying value	<u>8,870</u>	<u>8,870</u>

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

Coupon at 31 January 2017

Fixed rate	6,902	6,902
Floating rate	251	251
Debt securities at carrying value	<u>7,153</u>	<u>7,153</u>

Coupon at 31 January 2016

Fixed rate	8,125	8,125
Floating rate	745	745
Debt securities at carrying value	<u>8,870</u>	<u>8,870</u>

Rating at 31 January 2017

AAA	14%	14%
AA	30%	30%
A	41%	41%
BBB	15%	15%

Rating at 31 January 2016

AAA	14%	14%
AA	34%	34%
A	40%	40%
BBB	12%	12%

Investments are managed under external investment mandates with first class banks. The performance of these portfolios is regularly reviewed by an investment committee appointed by the board. This committee also regularly reviews strategy and proposes changes for the director's consideration. Strike Association Bermuda has strict investment guidelines, which are based on a conservative investment profile. Cash and deposits are placed with first class banks approved by the directors.

5. Subordinated loans to associated companies

Subordinated loans totalling \$2 million (2016: \$2 million) are due from Strike Insurance Bermuda (\$1 million) and Strike Insurance Europe (\$1 million). These amounts are repayable on demand, subject to all other debts of Strike Insurance Bermuda and Strike Insurance Europe.

6. Risk management

Framework

Strike Association Bermuda has an audit committee, which has been appointed by the directors, to review, amongst other items, the risk management functions of the Group. The risk evaluation consists of the identification of key risks, their consequence and likelihood and the strengths and weaknesses of the controls related to them. A partial evaluation of the risk management parameters is carried out twice yearly with a full review and analysis presented to the audit committee on an annual basis.

Financial risk

The principal financial instruments comprise equities, equity funds, bonds funds, bonds, short term deposits and cash. The main purpose of these financial instruments is to finance Strike Association Bermuda's activities. Strike Association Bermuda is exposed to market risk, foreign exchange risk, interest rate risk, credit risk and liquidity risk. The overall risk management programme seeks to minimise potential adverse effects on the financial performance of Strike Association Bermuda. The risk management policies employed by Strike Association Bermuda to manage these risks are discussed below.

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures against the US dollar, mainly to the Euro and to Sterling. The Group has not historically hedged foreign exchange exposures, although the investment portfolio managers have been permitted to use derivatives within strict limits. However, since 31 January 2017, Strike Association Bermuda has entered into forward contracts and option contracts to hedge part of its Sterling exposure to management costs.

Strike Association Bermuda has assessed its exposures to each currency and has calculated that a 10% appreciation of the US dollar against major currencies at 31 January 2017 would increase contingency reserves by approximately \$753,000 due to revaluation of financial instruments, with a 10% depreciation resulting in a \$753,000 decrease. There were no other significant currency exposures at 31 January 2017.

Interest rate risk

Strike Association Bermuda is not subject to interest rate fluctuations other than in relation to bonds. For fixed rate bonds, the contribution to the income of Strike Association Bermuda does not vary with the market rate of interest but the interest rate variation affects fair values. For floating rate bonds, interest rates are reset at regular intervals based on market rates and so Strike Association Bermuda is exposed to interest rate fluctuations. Strike Association Bermuda has assessed the interest rates applicable to its bond holdings and has calculated that, after allowing for the impact on the fair values of fixed rate bonds, a 1% increase in US LIBOR at 31 January 2017 would decrease income by approximately \$100,000 in the following year.

Credit risk

Besides financial investments, Strike Association Bermuda is exposed to credit risk on receivables from members, insureds, reinsurers and others. The managers estimate that Strike Association Bermuda's exposure to default credit risk is low despite the difficult freight market that many ship operators face.

The ageing of receivables is as follows:

	Neither past due nor impaired	0-6 mths	6-12 mths	Over 12 mths	Carrying value USD 000'S
Debtors and other receivables	77%	9%	10%	4%	1,688
Recoverable from reinsurers and others	100%	-	-	-	5,269
31 January 2017					<u>6,957</u>

	Neither past due nor impaired	0-6 mths	6-12 mths	Over 12 mths	Carrying value USD 000'S
Debtors and other receivables	74%	20%	3%	3%	3,511
Recoverable from reinsurers and others	100%	-	-	-	7,322
31 January 2016					<u>10,833</u>

The historical level of default is minimal and the credit quality of year end receivables is considered to be high. Where individual receivables cannot be collected an impairment provision is made. Additionally, statistical methodology has been used to create a doubtful debt provision and the managers have based their estimates on the ageing of accounts receivable balances:

	2017 USD 000's	2016 USD 000's
Opening doubtful debt provision	110	138
Bad debt charge during the year	(25)	(10)
Subsequent recoveries of amounts provided for	-	-
Amounts written off	-	(18)
Closing doubtful debt provision	<u>85</u>	<u>110</u>

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

Liquidity risk

Strike Association Bermuda's investments are relatively short term and liquid thus limiting liquidity risk. The following table outlines the expected liquidity in relation to Strike Association Bermuda's debtors and creditors.

	2017 USD 000's	2016 USD 000's
Receivables		
Loans to associated companies	2,000	2,000
Balances with associated companies	1,436	2,396
Debtors and other receivables	1,688	3,511
Recoverable from reinsurer and others	5,269	7,322
Deferred reinsurance	943	1,739
Deferred discounts	125	350
	11,461	17,318
Due within 12 months	10,275	14,409
Due to be settled later	1,186	2,909
	11,461	17,318
Payables		
Unearned premium reserve	1,007	2,427
Creditors	6,115	11,956
	7,122	14,383
Expected to be settled within 12 months	6,464	13,725
Expected to be settled later	658	658
	7,122	14,383

Insurance risk

The Strike Club covers defined risks on a mutual basis for delay and on a fixed premium basis for war risks, loss of hire, ancillary delay risks and profit protection for time charterers. New products are only introduced after review by the board of directors.

Delay risks covered by Strike Association Bermuda are sensitive to daily entered amounts, the position of the freight market, claims records and the general claims environment. Delay claims are dependent on the daily entered amounts and the general claims environment worldwide, and they are short tail. Strike Association Bermuda's experience is that certain events, such as a national strike or the closure of a significant port or waterway, can lead to an aggregation of claims.

Loss of hire premiums are sensitive to daily entered amounts, the position of the freight market, claims records and rates in the marine insurance market. Loss of hire cover up to \$5 million is offered on a selective basis to insureds whose profiles have been predetermined in conjunction with the board. The profiles take into account the type and age of the vessels, previous loss records and the reputation of the insured. Loss of hire claims can be notified in certain circumstances up to two years after the termination of the contract of insurance.

War risks premiums are dependent on the general reinsurance rates for this business, the vessel values and the geo-political situation. War casualties tend to be of relatively low frequency but of high severity.

In order to protect the contingency reserves against these various risks, The Strike Club has entered into reinsurance agreements to provide coverage protecting against major incidents as well as certain specific risks. The policies which cover the period are excess of loss, quota share, facultative or stop loss. For the most part, reinsurances are placed annually. Reinsurances are placed in the Lloyd's market or with reinsurers rated A or better, through recognised reinsurance brokers, and are agreed by the directors.

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

7. Recoverable from reinsurers and others

An amount of \$5,269,000 is outstanding from reinsurers at year end (2016: \$7,322,000). The total outstanding includes \$273,000 (2016: \$1,770,000) estimated in respect of events prior to the balance sheet date as recoverable on the commutation of an external reinsurance policy. This policy can be commuted at The Strike Club's option after 30 June 2017, or earlier by negotiation. The reinsurance on the unearned loss of hire, war and other premiums is \$943,000 (2016: \$1,739,000).

8. Cash and cash equivalents

	2017 USD 000's	2016 USD 000's
Cash at bank	2,067	4,318
	2,067	4,318

Short term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short term deposit rates.

9. Contingency reserves

The contingency reserves of \$11,323,000 (2016: \$19,884,000) comprise the accumulated excess of recorded income over claims and expenses for all policy years to date.

Any surplus on reserves may, at the discretion of the directors, be retained and applied for the purposes of Strike Association Bermuda.

The contingency reserves represent the retained capital of Strike Association Bermuda and are used to provide solvency reserves. There are statutory requirements in Bermuda where Strike Association Bermuda is licensed, which require minimum levels of capital and solvency. The directors regularly review the level of reserves in relation to the business underwritten.

10. Creditors and other payables

	2017 USD 000's	2016 USD 000's
Amounts due in respect of insurance and reinsurance contracts	205	1,669
Estimated outstanding claims	5,614	9,956
Insurance accruals	176	227
Other expense provisions	120	104
	6,115	11,956

Estimated outstanding claims represent:

	2017 USD 000's	2016 USD 000's
Loss of hire	4,956	9,047
War	658	909
	5,614	9,956

Estimated outstanding claims of \$5,210,000 (2016: \$5,210,000) on the delay quota share reinsurance agreement are included in balances with associated companies.

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

11. Gross earned premiums

	2017 USD 000's	2016 USD 000's
Quota share delay premiums	5,822	14,705
Loss of hire, war and other premiums	7,251	12,560
	13,073	27,265

The underlying Class I, II & III delay cover is provided under the rules of Strike Insurance Bermuda and Strike Insurance Europe, approved by the members, and the cover is coterminous with the financial year end. The latest rulebooks are available from the managers and on the website.

Loss of hire, war and other policies are individually contracted with insureds and have various termination dates, some of which may be up to 18 months from inception. Provision is made for the unearned portion of the premiums on a strict time basis.

12. Claims incurred net of reinsurance

Strike Association Bermuda has entered into quota share reinsurance agreements with its associated companies as disclosed in note 1. Transactions in the period were as follows:

	2017 USD 000's	2016 USD 000's
Approved claims, amounts under quota share agreements with associated companies and external costs	15,966	22,063
Change in estimated outstanding claims	(3,778)	(838)
Reinsurance recoveries	(1,740)	(5,293)
Claims handling costs (note 14)	1,445	1,392
	11,893	17,324

13. Operating expenses

	2017 USD 000's	2016 USD 000's
Brokerage	817	2,106
Management fee (note 14)	4,335	4,178
Directors fees	198	64
Travelling and meeting expenses	175	112
Directors and officers insurance	5	29
Legal and professional fees	151	1,074
Audit fees	56	76
Advertising, printing and stationery	44	48
Taxation	-	2
Other costs	63	122
	5,844	7,811

14. Management fee

The fee charged by the managers is shown below. Fees cover the cost of providing offices, staff and administration for operations. The basis of this remuneration is reviewed periodically and fixed by the directors.

The Shipowners' Mutual Strike Association (Bermuda) Limited

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2017

The fee is apportioned across three functions, which are included in the financial statements as follows:

	2017 USD 000's	2016 USD 000's
Acquisition costs	1,618	1,560
Financial and general	2,717	2,618
Management fee in operating expenses (note 13)	4,335	4,178
Claims handling costs (note 12)	1,445	1,392
	5,780	5,570

15. Investment income

	Cash & deposits USD 000's	Fair value through income USD 000's	Total USD 000's
Year ended 31 January 2017			
Interest income	-	140	140
Loss on sales and fair value movements	-	478	478
Investment costs	-	(61)	(61)
	-	557	557
Year ended 31 January 2016			
Interest income	-	200	200
Loss on sales and fair value movements	-	(301)	(301)
Investment costs	(2)	(87)	(89)
	(2)	(188)	(190)

16. Commitments

At 31 January 2017 and at 31 January 2016 Strike Association Bermuda had no material commitments.

17. Authorisation for issue and post balance sheet events

These financial statements for the year ended 31 January 2017 were authorised for issue in accordance with a resolution of the directors on 27 April 2017.

Between the balance sheet date and 27 April 2017 there have been no events arising that would have a material effect on these financial statements and which need to be recorded or disclosed.

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY CLASS
As at 31 January 2017

	Class I&II USD 000's	Class III USD 000's	LoH, War & Other USD 000's	2017 USD 000's	2016 USD 000's
Assets					
Financial assets	5,261	6,974	-	12,235	13,631
Loans to associated companies	1,138	862	-	2,000	2,000
Balances receivable from associated companies	-	1,436	-	1,436	2,396
Debtors and other receivables	159	123	1,406	1,688	3,511
Recoverable from reinsurers and others	(4)	4	5,269	5,269	7,322
Deferred reinsurance	-	-	943	943	1,739
Deferred discounts	-	-	125	125	350
Class accounts	(2,580)	(3,420)	6,000	-	-
Cash and cash equivalents	(216)	6,800	(4,517)	2,067	4,318
	3,758	12,779	9,226	25,763	35,267
Fund and liabilities					
Statutory reserves	753	247	-	1,000	1,000
Contingency reserves	(357)	12,464	(784)	11,323	19,884
Unearned premium reserve	-	-	1,007	1,007	2,427
Balances payable to associated companies	3,311	-	3,007	6,318	-
Creditors and other payables	51	68	5,996	6,115	11,956
	3,758	12,779	9,226	25,763	35,267

This page does not form part of the audited financial statements.

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY BY CLASS
For the year ended 31 January 2017

Statutory reserves

Statutory reserves at the beginning of the year
 Increase in statutory reserves
Statutory reserves at the end of the year

	Class I&II USD 000's	Class III USD 000's	LoH, War & Other USD 000's	2017 USD 000's	2016 USD 000's
Statutory reserves at the beginning of the year	753	247	-	1,000	1,000
Increase in statutory reserves	-	-	-	-	-
Statutory reserves at the end of the year	753	247	-	1,000	1,000

Contingency reserves

Contingency reserves at the beginning of the year
 Decrease from ordinary activities
 Total comprehensive loss
Contingency reserves at the end of the year

	Class I&II USD 000's	Class III USD 000's	LoH, War & Other USD 000's	2017 USD 000's	2016 USD 000's
Contingency reserves at the beginning of the year	2,047	14,414	3,423	19,884	26,370
Decrease from ordinary activities	(2,404)	(1,950)	(4,207)	(8,561)	(6,486)
Total comprehensive loss	(2,404)	(1,950)	(4,207)	(8,561)	(6,486)
Contingency reserves at the end of the year	(357)	12,464	(784)	11,323	19,884

This page does not form part of the audited financial statements.

THE SHIPOWNERS' MUTUAL STRIKE ASSOCIATION (BERMUDA) LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS BY CLASS
For the year ended 31 January 2017

	Class I&II USD 000's	Class III USD 000's	LoH, War & Other USD 000's	2017 USD 000's	2016 USD 000's
Insurance result					
Delay premiums	2,208	3,614	-	5,822	14,705
Loss of hire, war and other premiums	-	-	7,251	7,251	12,560
Gross earned premiums	2,208	3,614	7,251	13,073	27,265
Delay reinsurance premiums	(370)	(862)	-	(1,232)	(3,024)
Loss of hire and war reinsurance premiums	-	-	(3,188)	(3,188)	(5,350)
Outward reinsurance premiums	(370)	(862)	(3,188)	(4,420)	(8,374)
Net earned premiums	1,838	2,752	4,063	8,653	18,891
Claims incurred net of reinsurance	(3,291)	(3,686)	(4,916)	(11,893)	(17,324)
Insurance result	(1,453)	(934)	(853)	(3,240)	1,567
Operating expenses					
Operating expenses	(1,060)	(1,311)	(3,473)	(5,844)	(7,811)
Net insurance result after operating expenses	(2,513)	(2,245)	(4,326)	(9,084)	(6,244)
Financial income					
Net investment (loss)/income	150	407	-	557	(190)
Loss on exchange	(41)	(112)	119	(34)	(52)
Net financial (loss)/income	109	295	119	523	(242)
Decrease from ordinary activities	(2,404)	(1,950)	(4,207)	(8,561)	(6,486)
Other comprehensive income					
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	(2,404)	(1,950)	(4,207)	(8,561)	(6,486)

This page does not form part of the audited financial statements